

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 9247

INFO AMCONSUL CIUDAD JUAREZ UNN

AMCONSUL GUADALAJARA UNN

AMCONSUL HERMOSILLO UNN

AMCONSUL MATAMOROS UNN

AMCONSUL MAZATLAN UNN

AMCONSUL MERIDA UNN

AMCONSUL MONTERREY UNN

AMCONSUL NUEVO LAREDO UNN

AMCONSUL TIJUANA UNN

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E.O. 11652: N/A

TAGS: ENRG, MX

SUBJECT: GOM PLANS TO MEET ENERGY CRISIS

BEGIN SUMMARY. GOM ENERGY PLAN BASED ON THREE POINTS OF PROVIDING ENERGY AGENCIES (CFE, PEMEX) WITH ADDITIONAL RESOURCES NEEDED TO PROMOTE SELF-SUFFICIENCY, WORKING OUT PROCEDURES TO CONTROL DOMESTIC DEMAND, AND RE-DOUBLING MEXICO'S SEARCH FOR ALTERNATIVE ENERGY SOURCES. MEXICO'S ACHILLES' HEEL IS SHORT TO MEDIUM-TERM DEPENDENCE ON IMPORTS, WHICH ACCOUNT FOR 10 PERCENT TOTAL DOMESTIC CONSUMPTION. IN EMBASSY'S VIEW, MEXICO DEMONSTRATING AWARENESS ENERGY PROBLEMS, AND HAS TAKEN FIRST IMPORTANT STEPS TOWARD SOLUTION. GIVEN RENEWED LIMITED OFFICIAL USE

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EFFORTS, MEXICO MAY WELL REACH LONG-SOUGHT GOAL OF

SELF-SUFFICIENCY WITHIN NEXT YEAR OR SO. HOWEVER, IT IS UNLIKELY TO BECOME IMPORTANT EXPORTER OF PETROLEUM PRODUCTS DURING THIS DECADE. NEAR-TERM PROSPECTS NOT BRIGHT, WITH 1974 LOOMING AS YEAR OF POSSIBLE SHORTAGES, RESTRICTIONS, RISING PRICES, AND SPIRALING WAGE DEMANDS. ENERGY CRISIS NOT ONLY FACTOR INVOLVED, BUT APPEARS DESTINED TO MAKE ITS CONTRIBUTION TO MEXICO'S CURRENT CLIMATE OF UNCERTAINTY ON THE ECONOMIC SCENE. END SUMMARY.

1. GOM ENERGY PLAN AS IT HAS EMERGED IN RECENT WEEKS APPEARS TO BE BASED ON THREE KEY POINTS: (1) TO PROVIDE KEY ENERGY AGENCIES (COMISION FEDERAL DE ELECTRICIDAD, CFE, STATE ELECTRICAL POWER AGENCY AND PETROLEOS MEXICANOS, PEMEX, STATE OIL AGENCY) WITH THE ADDITIONAL RESOURCES NEEDED TO PROMOTE SELF-SUFFICIENCY IN FACE RISING DOMESTIC ENERGY DEMANDS; (2) TO HAVE PROCEDURES WORKED OUT AND READY FOR USE TO CONTROL EXCESS DOMESTIC ENERGY DEMAND AS REQUIRED IN COMING MONTHS, I.E. ELIMINATION OF SUNDAY DRIVING, SHORTENED HOURS FOR GASOLINE STATIONS, LOWERED SPEED LIMITS, BROWNOUTS FOR COMMERCIAL ADVERTISING OR IN RESIDENTIAL NEIGHBORHOODS, EXTENDING THROUGH THESE AND OTHER MEASURES TO RATIONING IF REQUIRED; AND (3) TO REDOUBLE MEXICO'S SEARCH FOR ALTERNATIVE ENERGY SOURCES WITHIN THE COUNTRY, INCLUDING EXPANSION OF NUCLEAR POWER PLANTS, EXPANSION OF GEOTHERMAL FACILITITES, INCREASE COAL PRODUCTION, AND INVESTIGATING POSSIBILITITES SUCH AS SOLAR ENERGY.

2. NEW RESOURCES TO ENERGY AGENCIES. MOST DRAMATIC MOVE IN NEW GOM ENERGY POLICY WAS DECISION TO INCREASE PRICES OF GASOLINE, GAS, AND MOST PETROLEUM PRODUCTS (MEXICO 9238). THIS, COUPLED WITH RECENT INCREASES IN ELECTRICITY RATES, WILL PROVIDE ENERGY AGENCIES WITH SUBSTANTIAL NEW RESOURCES WHICH WILL BE USED VERY LARGELY FOR INCREASED INVESTMENT IN PRODUCTION. IN CASE PEMEX, DIRECTOR ING. ANTONIO DOVALI JAIME ANNOUNCED THAT NEW REVENUE OVER NEXT THREE YEARS WILL AMOUNT TO SOME 30 BILLION PESOS (2.4 BILLION DOLLARS) FOR INVESTMENT IN NEW EXPLORATION EFFORTS, STEPPED-UP DRILLING, AND EXPANSION OF REFINERY LIMITED OFFICIAL USE

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FACILITITES. THIS SHOULD PROVIDE FOR SIGNIFICANT ACCELERATION OF PEMEX EFFORTS, LONG-ANNOUNCED BUT NEVER BEFORE EFFECTIVELY FINANCED, TO ACHIEVE SELF-SUFFICIENCY IN CRUDE OIL PRODUCTION AND REFINERY CAPACITY. ACCORDING TO CFE DIRECTOR LIC. ARSENIO FARELL, HIS AGENCY ALSO PLANS USE SUBSTANTIAL AMOUNT OF NEW REVENUES FOR EXPANSION POWER FACILITITES TO MEET GROWING DOMESTIC DEMAND. THESE PRICE AND RATE INCREASES, LONG

OVERDUE ON FINANCIAL GROUNDS (AND WHICH HAD BEEN URGED ON MEXICO BY SUCH INTERNATIONAL LENDING AGENCIES AS THE WORLD BANK) COUPLED WITH THE FINANCIAL RESOURCES ALLOTTED TO THEM BY THE NEW GOVERNMENT BUDGET (SEPTTEL), SHOULD BE OF GREAT ASSISTANCE IN PROMOTING INCREASED ENERGY PRODUCTION HERE.

3. CONTROLLING EXCESS ENERGY DEMAND. IN HIS RECENT ADDRESS TO THE NATIONAL TRIPARTITE COMMISSION MEETING TO DISCUSS THE ENERGY CRISIS (MEXICO 9238), PRESIDENT ECHEVERRIA CALLED ON ALL MEXICANS TO OBSERVE A VOLUNTARY PROGRAM OF CURBING EXCESSIVE SPEED ON THE HIGHWAY, AND TO USE RESTRAINT IN THEIR CONSUMPTION OF GAS, AND ELECTRICITY. EARLIER, THE MAYOR OF MEXICO CITY HAD REVEALED A PLAN, TO BE USED IF NECESSARY, TO PROHIBIT THE USE OF AUTOMOBILES ON SUNDAY IN MEXICO CITY, TO SHORTEN THE HOURS OF GAS STATIONS, TO CONSERVE ELECTRICITY THROUGH CAREFUL USE OF STREET LIGHTING, ETC. IT IS UNDERSTOOD THAT OTHER GOM OFFICIALS ARE ALSO PREPARING PLANS TO CONTROL ENERGY CONSUMPTION IN MEXICO AS NECESSARY, RANGING FROM THE CALLS FOR VOLUNTARY COOPERATION ALREADY MADE BY PRESIDENT ECHEVERRIA AND OTHERS TO A GOM-ENFORCED REGULATORY SYSTEM, EVEN TO THE POINT OF RATIONING. SOME ALLOCATION PROBLEMS ARE SIMPLER OF SOLUTION IN MEXICO THAN ELSEWHERE, SINCE PEMEX, THE STATE OIL AGENCY, HAS EXCLUSIVE CONTROL OVER ALL REFINERY AND PRIMARY PETROCHEMICAL PRODUCTION, AND CAN AT WILL (WITHIN TECHNICAL LIMITS) VARY OUTPUT MIX RATIO OF FUEL OIL OR OTHER DISTILLATES VIS-A-VIS GASOLINE TO MEET INDUSTRIAL OR OTHER REQUIREMENTS. PEMEX ALSO IN POSITION TO ADMINISTER PRICE STRUCTURE ON PETROLEUM PRODUCTS TO DISCOURAGE DEMAND. EXAMPLE OF THIS WAS DECISION PEMEX TO INCREASE PRICE BUNKERING LIMITED OFFICIAL USE

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FUEL AND DIESEL AS REPORTED MEXICO 8965.
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ACTION ARA-20

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4. FOREIGN TRADE. MEXICO'S ACHILLES' HEEL IS SHORT TO MEDIUM-TERM DEPENDENCE ON IMPORTS. MEXICO IS NOW IMPORTING SOME 50,000 BPD OF CRUDE, CHIEFLY FROM VENEZUELA, AND IMPORTED ALMOST ONE-HALF OF THE 2.4 BILLION KILOGRAMS OF LIQUID GAS CONSUMED IN MEXICO THIS YEAR (PEMEX FIGURES SHOW THAT 1.1 BILLION KILOGRAMS OF LG WERE IMPORTED, AND ESTIMATES 1.3 BILLION KILOGRAMS WILL BE PRODUCED DOMESTICALLY DURING 1973). PEMEX IMPORTS ABOUT 10 PERCENT OF PETROLEUM PRODUCTS CONSUMED IN MEXICO EACH YEAR. GIVEN SHARED 2,000 MILE BORDER BETWEEN US AND MEXICO, THERE IS CONSIDERABLE LOCAL TWO-WAY FLOW OF PETROLEUM AND GAS. THE US SUPPLIES JET FUEL TO TIJUANA, AND AVGAS TO MEXICALI; EL PASO NATURAL GAS SUPPLIES LG TO CIUDAD JUAREZ, AS DO OTHER US DISTRIBUTORS TO OTHER MEXICAN CITIES ALONG BORDER; US LIMITED OFFICIAL USE

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MOTORISTS PURCHASE SIGNIFICANT QUANTITIES OF GASOLINE AND LUBRICANTS IN MEXICAN BORDER CITIES (OR AT LEAST THEY DID BEFORE RECENT PRICE RISES REPORTED MEXICO 9238); AND, OF COURSE, MEXICO EXPORTS SOME 15,000 BPD OF HEAVY RESIDUE VIA PORT OF BROWNSVILLE AND US BOTTOMS TO GETTY FACILITY IN DELAWARE. PEMEX ALSO EXPORT #6 ASPHALT TO MOBIL AND OCCIDENTAL IN BROWNSVILLE. US AND MEXICAN

VESSELS AND AIRCRAFT USE EACH OTHER'S PORT AND AIRPORT FACILITIES FOR BUNKERING AND REFUELING. (AVIATION ASPECTS ENERGY CRISES BEING HANDLED SEPTELS). WHILE MEXICO HAS EXPRESSED CONFIDENCE THAT ITS CHIEF SUPPLIER, VENEZUELA, AND THE US WILL CONTINUE TO SUPPLY NEEDED IMPORTS, CERTAINLY RECENT EVENTS ON THE WORLD SCENE HAVE CAUSED GREAT CONCERN HERE, INCLUDING BUT NOT LIMITED TO RECENT SUBSTANTIAL PRICE INCREASES IN CRUDE, GAS AND REFINED PRODUCTS, AND HAVE RESULTED IN THE ACCELERATED EFFORTS ON MEXICO'S PART TO ACHIEVE SELF-SUFFICIENCY IN THE ENERGY FIELD AS QUICKLY AS POSSIBLE. RECENT STATEMENTS ON FUTURE AVAILABILITY CRUDE MADE BY VENEZUELAN PRESIDENT-ELECT ALSO HAVE CAUSED CONCERN.

5. ECONOMIC IMPLICATIONS. REACTION IN MEXICO HAS BEEN QUITE MIXED AS TO ECONOMIC IMPLICATIONS PRICE INCREASE ASPECTS OF NEW ENERGY PROGRAM. IT HAS BEEN POINTED OUT THAT ACTION REPRESENTS A TRANSFER OF RESOURCES FROM THE PRIVATE SECTOR TO THE PUBLIC SECTOR, THUS REDUCING AGGREGATE PRIVATE SECTOR DEMAND, AND TO THAT EXTENT DAMPENING INFLATIONARY PRESSURES. HOWEVER, PUBLIC SECTOR (I.E. PEMEX AND CFE) HAS ANNOUNCED THAT NEW REVENUES WILL BE USED FOR EXPANSION EFFORTS IN ENERGY FIELD, THUS ADDING TO INFLATIONARY PRESSURES. MOST IMPORTANT CONSIDERATION IS PROBABLY THAT TOUCHED UPON IN MEXICO 9238, I.E. CAN INDUSTRY ABSORB INCREASED PRODUCTION COSTS, OR WILL THEY RESULT IN HIGHER PRICES TO CONSUMER? DESPITE EXHORTATIONS OF SECRETARY OF INDUSTRY AND COMMERCE TORRES MANZO AND SECRETARY OF TREASURY LOPEZ PORTILLO FOR INDUSTRIALISTS TO BITE THE BULLET, INCREASE EFFICIENCY, AND SHAVE PROFIT MARGINS, IT SEEMS MORE LIKELY FROM PRIVATE SECTOR COMMENT THAT PRICE INCREASES WILL RESULT. SEVERAL LEADING MEXICAN BUSINESSMEN ALREADY HAVE INDICATED AS MUCH IN PUBLIC STATEMENTS LIMITED OFFICIAL USE

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(SEE PARA 3 MEXICO 9238). FOR EXAMPLE, DR. ERNEST AMTMANN, HEAD OF THE ASSOCIATION OF EXPORT INDUSTRIES, HAS EXPRESSED THE FEAR THAT THE "INEVITABLE" PRICE RISES CAUSED BY INCREASING PRODUCTION COSTS WILL MAKE MEXICO LESS COMPETITIVE IN EXPORT MARKETS NEXT YEAR. LABOR, OF COURSE, IS NOT FAR BEHIND IN INSISTING THAT THE WORKER MUST NOT BEAR THE BRUNT OF ECONOMIC PROBLEMS, AND THAT WAGES MUST INCREASE TO MAINTAIN OR TO IMPROVE THE WORKER'S BUYING POWER. SOME OF THE PRESSURE OF THE PRICE INCREASES WAS TAKEN OFF WHEN PEMEX ANNOUNCED THAT URBAN BUSES WOULD CONTINUE TO RECEIVE LOW-OCTANE GAS AT THE OLD RATES. SIMILAR SUBSIDIES ARE NOW BEING SOUGHT FOR INTER-URBAN BUSES, TAXIS, AND TRUCKS. IF SOME RELIEF IS NOT OFFERED, IT APPEARS OBVIOUS THAT THERE WILL BE INTENSE PRESSURE

TO INCREASE INTER-CITY BUS FARES, TAXI FARES, AND RATES FOR TRUCK TRANSPORT. CAB DRIVERS ALREADY HAVE DEMANDED WHAT AMOUNTS TO A DOUBLING OF PRESENT FARES IN MEXICO CITY, WHILE TRUCK DRIVERS ARE INSISTING ON HIGHER INTER-CITY FREIGHT RATES. THESE DEMANDS MIGHT BE DAMPENED IF FUEL OR OTHER SUBSIDIES ARE OFFERED, BUT THERE IS NO INDICATION THAT ANY SUCH OFFER IS FORTHCOMING. SR. LUIS GOMEZ Z., THE HEAD OF THE NATIONAL RAILROADS, HAS BEMOANED THE FACT THAT THE RAILROADS WILL SUFFER FURTHER LOSSES DUE TO THE INCREASE IN THE PRICE OF FUEL, CHIEFLY DIESEL, AND LUBRICANTS PURCHASED FROM PEMEX. THOUGH NOTHING HAS BEEN DECIDED AS YET ABOUT POSSIBLE RAIL FARE INCREASES, THEY MIGHT WELL RESULT FROM RECENT INCREASES IN PRODUCTION COSTS, AND IN VIEW OF FACT THAT RAILROADS NOW OPERATING AT SUCH A VERY CONSIDERABLE LOSS. CERTAINLY SUCH A MOVE WOULD BE IN LINE WITH THE RATIONALIZATION OF FINANCIAL BASES OF OTHER PARASTATAL AGENCIES CFE AND PEMEX.

6. COMMENTS: (1) IN THE EMBASSY'S JUDGMENT, MEXICO HAS DEMONSTRATED AWARENESS OF ENERGY PROBLEMS, AND IN PAST WEEK OR SO HAS TAKEN FIRST IMPORTANT STEPS TOWARD SOLUTION. IT IS OBVIOUS THAT GOM IS DETERMINED TO ACHIEVE SUBSTANTIAL SELF-SUFFICIENCY IN CRUDE OIL PRODUCTION AND REFINERY CAPACITY IN THE SHORTEST POSSIBLE TIME. GIVEN MEXICO'S SUBSTANTIAL FIELDS OF PROVEN RESERVES (17 YEARS AT PRESENT CONSUMPTION) AND LIMITED OFFICIAL USE

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THE NEW RESOURCES BEING DEVOTED ON AN URGENT BASIS TO EXPANSION OF CRUDE PRODUCTION, IT SEEMS LIKELY THAT MEXICO WILL AT LAST ACHIEVE ITS LONG-SOUGHT GOAL, POSSIBLY IN A YEAR OR LESS. IN THE MEANTIME, LIKE MANY OTHER INDUSTRIAL OR INDUSTRIALIZING COUNTRIES, MEXICO WILL CONTINUE TO BE AFFECTED BY PRICE INCREASES, OR ANY FURTHER CONTRACTIONS OF WORLD CRUDE OIL SUPPLY, WHETHER FROM ARAB WORLD OR TRADITIONAL SUPPLIER VENEZUELA, AND FROM POSSIBLE SHORTAGES LIQUID GAS SUFFERED BY TRADITIONAL SUPPLIERS SUCH AS US; (2) EVEN IF MEXICO SUCCEEDS DURING NEXT YEAR OR SO IN SUBSTANTIALY INSULATING ITSELF FROM EFFECTS PRESENT OR FUTURE "PETROLEUM WARS," IT WOULD BE UNREASONABLE IN THE SHORT OR MEDIUM-TERM TO EXPECT TO SEE MEXICO EMERGE AS A SIGNIFICANT EXPORTER OF CRUDE OR PETROLEUM PRODUCTS. IN THE LATE 1970S, MEXICO MIGHT BE IN A POSITION TO EXPORT SOME REFINED PRODUCTS, BUT IT IS UNLIKELY IN EMBASSY'S JUDGMENT TO BECOME AN IMPORTANT EXPORTER IN THIS DECADE; (3) IN THE NEAR-TERM, PROSPECTS ARE NOT BRIGHT, WITH AVAILABLE EVIDENCE SUGGESTING THAT 1974 WILL BE A YEAR OF POSSIBLE SHORTAGES, RESTRICTIONS, RISING PRICES AS

A RESULT OF INCREASED PRODUCTION COSTS, AND SPIRALING
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Message Attributes

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